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ORIGINAL

AZ CORP COMMISSION  
DOCKET CONTROL

April 30, 2014

Docket Control  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007-2996

Arizona Corporation Commission  
DOCKETED

APR 30 2014

DOCKETED BY 

**Re:** Compliance Filing of Arizona Public Service Company Regarding APS  
Expense Reduction Commitment, Docket No. E-01345A-08-0172  
(2009 APS Settlement Agreement).

Dear Sir or Madam:

As part of its 2009 rate case settlement (the "2009 Settlement")<sup>1</sup>, APS agreed to sustain \$20 million worth of expense savings reported to the Commission in 2009, and to continue to reduce expenses by an annual average amount of \$30 million each year through 2014, for a cumulative total reduction of \$150 million.

APS is acutely focused on cost management, not only to comply with its 2009 Settlement obligation, but also to show customers, stakeholders, investors, credit rating agencies, and the Commission that APS is a company that is committed to fiscal responsibility. That focus is critical both for APS to meet its expense reduction commitment and to strengthen the Company's credit quality and financial metrics during both the 2009 Settlement term and the 2012-2016 term of APS's more recent Settlement Agreement, filed in Docket No. E-01345A-11-0224. Towards those ends, APS has continued to implement a comprehensive, strategic cost management initiative in an effort to continue to make operations more efficient and further drive costs down where appropriate.

In 2013, APS removed at least \$36,100,000 in expenses from its cost structure. These savings include the following:

<sup>1</sup> Approved by the Commission in Decision No. 71448 (December 30, 2009). The expense reduction commitment is located in Section VII of the Settlement Agreement.

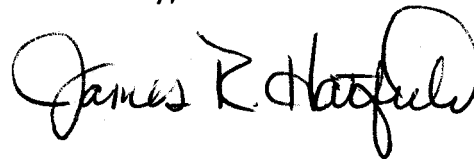
Area	Action Taken	2013 Expense Savings
Supply Chain Savings	Reduced departmental labor costs from headcount savings and management of contract services costs including the Long Term Services Agreement (LTSA) associated with the Redhawk power plant, fossil industrial services and vegetation management	\$1,200,000
Energy Delivery Dept Savings	Further reductions in staffing levels and related labor costs.	\$800,000
Medical Benefit Costs	Further reduced medical benefit program costs by changing prescription vendors and optimizing federal reimbursement of prescription costs.	\$5,200,000
Human Resources Dept. Savings	Increased cost efficiency by reducing consulting costs and performing more work in-house.	\$400,000
Customer Service and Marketing Dept Savings	Further reduced headcount, labor related expenses and marketing program costs.	\$1,400,000
APS share of Palo Verde on-going efficiencies	Continued to increase the efficiency of plant processes and operations, which allowed for additional headcount reductions.	\$3,200,000
Accounting and Finance Dept Savings	Further reduced staffing, labor related costs and reduced outside services costs.	\$2,200,000
Power Marketing and Resource Planning Dept. savings	Further reduced staffing and labor related costs and outside services costs.	\$2,100,000
Law Department and Government Affairs Dept. savings	Further reduced staffing, labor related costs and performed more work in-house thereby reducing outside legal counsel costs.	\$2,200,000
Sustainability Dept Savings	Reduced staffing, labor related costs, outside services/consulting contract costs and leased facilities costs.	\$1,100,000
Regulatory Dept Savings	Reduced staffing, labor related costs and outside services costs.	\$1,000,000
Interest Savings	Saved interest costs in 2013 related to the accumulated reduced expenditures from 2010 to present.	\$8,900,000

Letter to Docket Control  
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<b>Area</b>	<b>Action Taken</b>	<b>2013 Expense Savings</b>
Management and Employee Compensation	Maintained 2008 base compensation levels in 2009 for all management employees and many non-union front line employees, resulting in continued savings in 2013.	\$6,400,000
<b>TOTAL</b>		<b>\$36,100,000</b>

As discussed above, APS has been and remains committed to a Company-wide emphasis on efficiency and cost management, both during the 2009 Settlement term and beyond. This letter reports a savings of over \$36 million in 2013 and satisfies the Company's compliance obligations for 2013 under Section VII of the 2009 Settlement Agreement.

Sincerely,

A handwritten signature in black ink, appearing to read "James R. Hatfield". The signature is fluid and cursive, with a large loop at the end.

James R. Hatfield

cc: Parties to the Docket;  
Original and 13 copies to Docket Control

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